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Special FOLIO: roundtable:

Circulators on circulation

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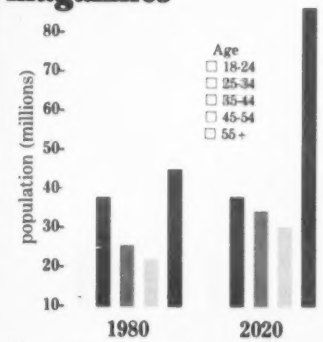
Demographics shape magazines



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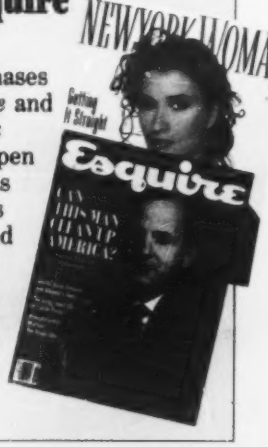

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UPDATE

Demographics shape magazines

Aging of baby boom is most pronounced demographic trend

Demographic changes are a key factor in the rise of new magazines—even entire magazine categories—and help shape titles' editorial and advertising. What, then, are some major demographic and lifestyle changes that, over the next decade and into the year 2000, will have an impact on the magazine industry?

The most pronounced demographic phenomenon in the United States will probably continue to be the impact of the baby boom generation—individuals born between 1948 and 1964 who now make up about one-third of the population. This generation is fast approaching middle age. According to the Census Bureau, the number of 35- to 44-year-olds increased 15 percent between 1980 and 1983, compared to a national population growth of 3.3 percent.

As baby boomers age, their attention turns to new concerns: health, children's education, savings for retirement and caring for aging parents. Baby boomers will, in effect, become more future oriented, observes Barrie Atkin, director of corporate planning for Rodale Press. Because health concerns will increase among maturing baby boomers, magazines on health/fitness should continue to be in demand, she predicts.

Prospects are also good for titles aimed at parents and children: The birth rate has risen over the last five years, reversing a trend that stretched

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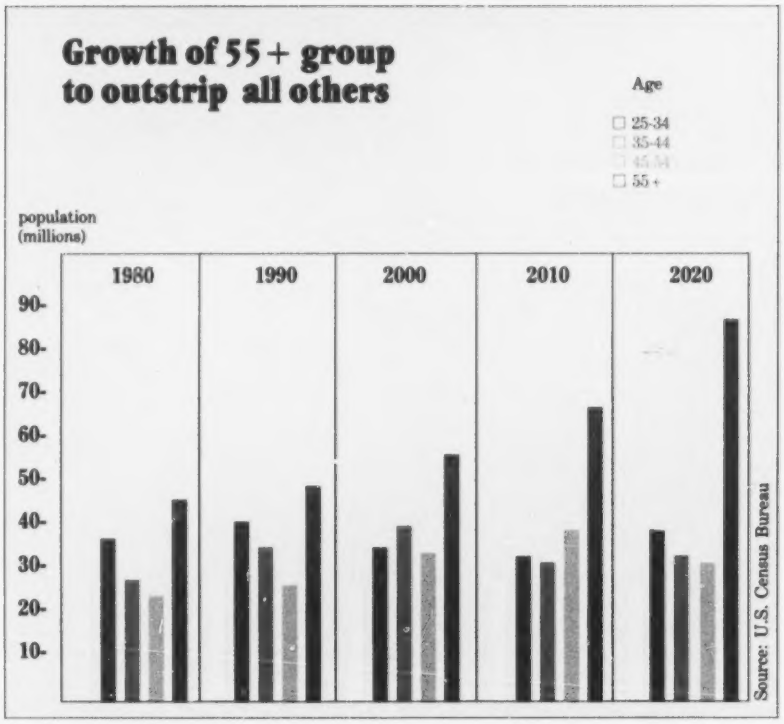

***By the year 2020,** the 55 and over market—today's baby boomers—is expected to command nearly a 30 percent share of the total U.S. population.*

Two premium trends emerge

Newsweek and others step up use of editorial premiums; more titles offer renewal gifts

Two trends regarding the use of premiums in circulation are emerging: the increased use of premiums to entice renewing subscribers and the return of the editorial-related premium.

Now more than ever, a subscriber's first introduction to a magazine is likely to be tied to a premium offer, says E. Daniel Capell, circulation consultant (*see sidebar*). As consumers are accustomed to buying magazines this way, using a renewal premium is increasingly necessary. This year, Capell

claims, 30 percent of the industry is expected to offer premiums to renew.

American Film combines the two strategies by offering a book to renewing current subscribers, says Ronald Moyer, a circulation consultant to the title and head of RSM Marketing.

The book, which profiles the magazine's lifetime achievement award winners, is used as an advance renewal incentive. All 129,000 subscribers are sent promotions featuring the book. Last year, two such mailings generated 24,000 advance renewal orders.

Business title *Administrative Management*, another Moyer client, uses a renewal premium in the final effort to keep subscribers. The title sends a coffee mug to subscribers who failed to respond to previous mailings.

Magazines may get themselves into trouble, however, if they rely on the renewal premium to maintain subscribers who would otherwise not reorder. Gil Maurer, president of Hearst Magazines, cautions that this approach can be economic "folly."

Editorial premiums

Magazines are also stepping up the use of books, reprints and other editorial-related premiums, says Capell. Titles turning to editorial premiums range from *InfoWorld to Country Journal* (*see box*). The cost involved in producing editorial premiums versus the cost of offering "hard" premiums (clock radios, cameras, et cetera) is attractive to publishers, he adds. Editorial premiums accounted for 37 percent of premium subscriptions sold in the first half of 1986, he reports.

Newsweek recently changed its strategy on premium use, says circulation director Harold Shane. This year the bulk of the magazine's subscription campaign is an incentive offer of special *Newsweek* issues covering four topics: health, science, finance and arts and entertainment. This offer is far less expensive than were the hard premium campaigns the newsweekly ran in the past.

Newsweek is following the lead of *U.S. News & World Report*, which turned to editorial premiums last year. The title's main premium offer is a compendium of finance articles published in the magazine and repackaged as *The Home Finance Library*, says Jake Winebaum, circulation director.

U.S. News still offers hard premiums, but they accounted for only 5 percent of new subscription circulation in the first half of 1986, compared to the 20 percent they accounted for in the first six months of 1985, Winebaum says. He adds that the editorial premium has worked well: Subscription circulation is 2.2 million, up 9.1 percent in the first half of 1986, compared to the same 1985 period.

Whether the use of editorial premiums will continue to grow depends largely upon Time Inc., says Gerard Smith, *Newsweek*'s publisher. If Time remains active in the hard premium business, it is difficult to say what the magazine industry will do. "If this doesn't work well for us, we'll be back to using hard premiums," he explains.

Indeed, *Time* will be testing editorial premiums this year, says an executive at the company. Other Time Inc.

The debate on premiums: Are freebies detrimental to the industry, or smart marketing?

The number of subscriptions sold through premiums has more than doubled in the past five years, according to E. Daniel Capell, circulation consultant.

An analysis of magazines audited by the Audit Bureau of Circulations shows that 15.519 million subscriptions were sold via premium offers during the first half of 1986, compared to 6.877 million such subscriptions in the first half of 1981, says Capell.

Capell predicts that the use of gimmicks (premiums, sweepstakes, complimentary copies) will hit an all-time high this year. As many as 90 percent of new subscription offers will contain such incentives, he says.

The heavy use of premiums draws criticism from Gerard Smith, publisher of *Newsweek*, who is moving the magazine out of the hard premium business.

Such magazine industry circulation promotion is detrimental to the product, he cautions. "I think we need to make a very concerted effort as an industry to move out of the premium business," he says.

Competitor Time Inc. defends its extensive use of gifts such as radios, cameras and other goods to lure subscribers. "Premiums induce trial," says Ann Moore, general manager, *Sports Illustrated*. "Everybody loves a deal, and everybody needs that little nudge."

Hearst Magazines' president Gil Maurer encourages using premiums at least to introduce readers to a magazine: "We make use of every introductory means, and we will continue to do that.

"You are infinitely better off using whatever inducement you see fit to get the magazine into as many, semicommitted hands as you can."

Some titles using more editorial premiums

	Number of subscriptions sold via editorial premiums	
	First half 1986	First half 1985
Family Computing	124,000	17,000
Outdoor	57,000	44,000
Esquire	48,000	16,000
Golf	22,000	6,000
InfoWorld	27,000	2,000
U.S. News & World Report	357,000	0
Inc.	244,000	82,000
Country Journal	116,000	3,000

Source: E. Daniel Capell. Compiled from ABC statements

***Books, reprints and other editorial premiums** are gaining popularity with publishers. Editorial products are less expensive to offer than hard premiums, and, some say, more likely to lure those truly interested in the title.*

titles, *Money* and *Sports Illustrated*, already use editorial premiums in their promotions. "Using the editorial premium is better for advertisers," says Mark Stanich, circulation manager, *Money*. "They are sure that the readers want the magazine."

Editorial premiums may reduce upfront response to subscription offers but will help boost renewal rates, Capell says, because subscribers gained through editorial premiums are likely to be genuinely interested in the magazine.□

Editors make hay from advertising fiasco

When readers, magazine's ad department are bilked, *Tennis, Golf Digest* editors see great story

Trumbull, Conn.—Out of every evil comes some good, they say. "They" might be the editors of *Tennis* and *Golf Digest*.

While the advertising department of *Golf Digest* was smarting from the loss of more than $100,000 in ad revenue from a ne'er-do-well mail-order advertiser whose customers were screaming about being bilked out of approximately $2 million in golf equipment, editorial saw a good thing—an important story.

The culprit: SanTennis & Golf, a company that operated out of Portland, Oregon, for about a year. It began by specializing in tennis equipment and built up a good reputation. Then it switched to golf equipment. Shortly afterward, the firm, founder Peter Nandwani, the mail-order money and the equipment vanished.

In January, *Tennis* ran a four-page feature with a cover blurb, "Ripped off! A mail-order scandal." *Golf Digest* covered the fiasco with a two-page special equipment report titled "Mail-order racket exposed." (Both magazines are owned by a subsidiary of The New York Times Company.)

Might have been ignored

The saga might have been ignored by many editors, while others simply might have run a boxed warning to readers. Many legal, ethical and monetary considerations (such as the effect running the story might have on other mail-order advertisers) could have bogged down the article in endless debates or killed it altogether.

The SanTennis story, though, was considered purely on its editorial merit, according to Nick Seitz, vice president and editorial director of Golf Digest/Tennis, Inc. The idea was introduced by Robin Deutsch, an eager assistant editor of *Tennis Buyer's Guide*. Deutsch, 26, pitched the story during a monthly *Tennis* planning meeting.

"The guy captivated everybody with his findings," says Seitz. The immediate reaction of *Tennis* editors was "This is a helluva story." *Golf Digest* editors agreed.

The SanTennis scam was Deutsch's first major reporting assignment; his stories on it appeared in the two consumer titles and in two trade magazines, *Tennis Buyer's Guide* and *Golf Shop Operations*.

"We pushed the articles as far as we could to see what management would say," Seitz explains. "The publisher, the president of Golf Digest/Tennis, Inc., and The New York Times legal department all looked at the stories, and [the articles] came through unscathed."

Deluged with letters

Readers were undoubtedly interested—SanTennis had run ads in *Golf Digest* in June, July and August of last year. When the company stopped delivering ordered goods, *Golf Digest* was deluged with some 700 letters and 22 phone calls every day for two weeks. The magazine stopped running SanTennis' ads as of September 1986.

Seitz says that editorial recognized the reader service angle in the story: *Golf Digest* included a sidebar, "How to buy from mail-order firms," and the article ended with a "buyer beware" note.

SanTennis' disappearing act cost Golf Digest/Tennis Inc. thousands in unpaid advertising, but it made a "helluva story," the editors agreed.

The possible effect on mail-order advertisers of golf equipment (according to a *Golf Digest* survey, 8 percent of its readers purchase golf equipment by mail) was also addressed head-on in the story's *Golf Digest* version. Quotes from several mail-order company executives were aimed at reassuring readers that not all mail-order companies are dishonest.

But these angles were, in fact, secondary. The real lure of the story was its international intrigue and shocking events. Alex McNab, executive editor of *Tennis*, points out that it is rare to find a thrilling crime story in the tennis world.

The case against SanTennis has gone before a Federal grand jury in Portland, Oregon, for indictments on mail-order, wire and bank fraud. The firm's runaway leader, Nandwani, is being pursued on three continents by Interpol and possibly by the Internal Revenue Service.

Readers are still calling *Golf Digest* about the rip-off. But instead of asking "Where are the golf clubs I ordered?" they are congratulating the editors for publishing a great story.□

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gramming information necessary to write a common translation language. In January, those companies began testing communication between prepress systems; IT.8 expects to begin testing in April the DDES user format at user sites.

According to Patrice Dunn, managing editor at Dunn Technology, a Vista, California, consulting firm heading the DDES drive, all testing closely follows ANSI guidelines to assure that the specifications gain the authority and acceptance that ANSI standards command in other industries.

Ultimate goal

The ultimate goal, one that Benham says the IT.8 committee may not want to tackle, is standardization of electronic typesetting interfacing. The electronic typesetting industry grew so rapidly, he says, that no one realized the need for standardization until the dozens of manufacturer and programming languages in use became unwieldly.

According to Benham, that failure complicates the next critical step in prepress technology: the cost-efficient merging of color graphics and text for "the general practitioner" using different combinations of equipment. "If anything holds that up, it will be the lack of standards for text systems," he states.

Benham hopes the experience the IT.8 committee gains will help establish similar standards for the typesetting industry. He sees problems, though, resulting from the sheer number of manufacturers that would be involved.

As with the color imaging standards, he says, nothing will move until users force it to move.□

10-year forecast: Ads to parallel GNP

Circulation revenue may further eclipse ad revenue growth

West Palm Beach, Fla.—Growth in national advertising expenditures over the next decade should more or less match that of the national econo-

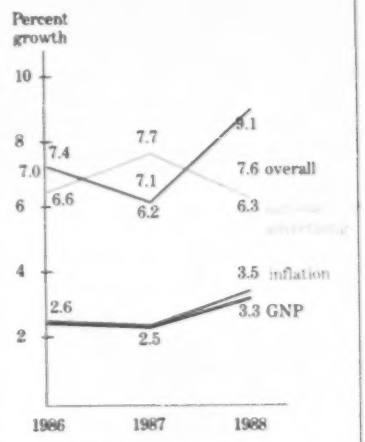
my, an expected compound growth rate of 7.2 percent through 1995, according to J. Kendrick Noble Jr., first vice president, PaineWebber, Inc. Speaking at the Printer/Publisher Symposium sponsored in November by the Graphic Communications Association, he added that local advertising expenditures should show a 7.9 percent compound growth rate.

Overall, Noble said, he anticipates modest growth in the economy for the next two years, with a flattening of national advertising relative to the economy. He also expects magazines to increase emphasis on circulation revenue and profitability, and advertisers to place more emphasis on targeting specific audiences for specific product and service marketing messages.

Noble, however, claimed he sees some hope, as a result of the new tax bill, for a better national advertising outlook. The higher after-tax income that many consumer advertisers expect to see in 1987 and thereafter may produce increased advertising expenditures in consumer magazines. The loss of investment tax credits for certain business press advertisers, though, may have a negative impact on some business publishers.

Graph 1

Ad spending to flatten relative to economy

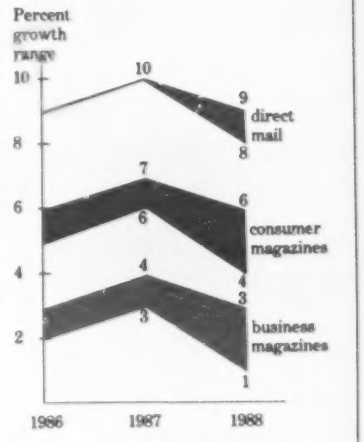


Source: J. Kendrick Noble Jr. PaineWebber inc.

***Ad downturn:** Although 1988 is a Presidential election and an Olympic year, PaineWebber expects a decline in national advertising expenditures next year.*

Graph 2

Modest growth in print ad revenue forecast



Source: J. Kendrick Noble Jr. PaineWebber Inc.

***Direct mail** spending will continue to outpace magazine ad growth. But forecasts don't account for tax reform savings that may boost ad budgets, especially for consumer titles.*

Although 1988 is both a Presidential election year and an Olympic year, it may not, Noble predicted, bring the strong increase in national magazine advertising spending that typically accompanies such activities. Instead, he expects national advertising expenditures to decline slightly for 1988 over 1987, but he admits his predictions for 1988 may be a percentage point or two low. (*See Graph 1.*)

Circulation 'driving force'

Over the next couple of years, circulation revenue growth rates should continue to eclipse those of advertising revenue, to the point where "it may become the driving force," Noble said.

"Though it may seem heresy," he continued, "I can see the reasonable possibility of a mix for consumer magazines, a decade hence, of one-third advertising, two-thirds circulation revenue. Even higher ratios do now exist."

Circulation growth will be powered by renewed emphasis on editorial excellence, which in turn commands

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high renewal rates and newsstand sell-throughs, Noble said. He predicted expanded use of color in both advertising and editorial content, and more efforts to redesign and upgrade magazines' appearances.

Subscription and cover prices, he added, should be able to outpace inflation by 2 percent to 3 percent; advertising rate increases in undifferentiated media will closely match inflation rates.

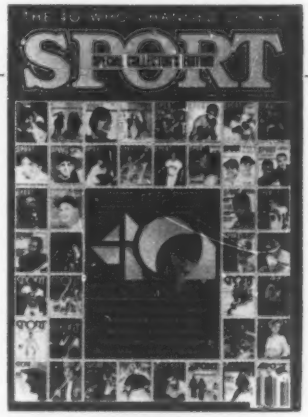
Magazines' attractiveness to advertisers, versus that of other media, will continue to hinge on specialization and localization, he continued. The titles best able to pinpoint their readers' buying habits will be most successful at attracting advertisers, "perhaps even at premium CPMs in a market where some discounting may be occurring," Noble concluded.□

Selling single copies to travelers

Eye-catching displays in airports, train stations make good impression on advertisers

New York City—A commuter walking last fall through Grand Central Terminal, one of New York City's two main train stations, might have been struck by *Sport*'s eye-catching display at each of the station's seven newsstands. The display—a band of covers from *Sport*'s 40th anniversary issue running across the top of each newsstand—also appeared at newsstands in New York's other large terminal, Pennsylvania Station.

Sport is participating in a program with Elson's Inc., an Atlanta-based chain of newsstands with locations in airports, train stations and hotels nationwide. The arrangement also gives *Sport* special displays at Chicago and Atlanta airports this year. The cost to *Sport* comes to "several thousand dollars," according to Alan Inglis, circulation director.



***A band of covers** from* Sport*'s 40th anniversary issue ran across the top of newsstands in New York City train terminals last fall.*

The New York train station displays helped generate an 85 percent to 90 percent sell-through at 14 outlets; the magazine usually gets roughly 45 percent to 50 percent sell-through at those locations. (*Sport* averages 150,000 newsstand copies of a total 930,000 circulation.)

Nonetheless, Inglis explains, the additional sales, plus projected additional airport sales, will not cover the promotion cost. The special displays,

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Analysis of publicly-held magazine publishing companies

Business and consumer magazines ranked high in the communications industry in their return on assets for 1985—which raises anticipation for better operating growth for the year just ended

BY JOHN S. SUHLER AND WALTER HUNNEWELL JR.

Magazine publishers, while not matching the financial growth rates from operations posted annually by the entire communications industry, have been delivering a standout performance on the test that, from an investment perspective, matters the most: return on assets.

This key measure focuses on how much every dollar invested in a company has grown. Taking into account the value of plant, inventory, receivables, cash and other holdings, return on assets is a comparison of the operating bottom line—income and cash-flow—with the amount of investment needed to produce it.

Our assessment of magazine publishers, compared with the entire communications industry, is based on a review of their operating results for the five-year period from 1981 through 1985. During this period, the publishers showed themselves to be much more efficient asset utilizers than did the overall industry—and this was true not only in terms of returns on assets, but also in terms of their asset turnover rate.

These conclusions are drawn from the data presented in the fourth annual edition of *Communications Industry Report*. The report carries data for 355 business lines of 279 companies operating in the communications industry in the United States and Canada. It groups the data into 10 segments (and there is also a miscellaneous grouping for cases where less than 60 percent of the revenue in a business line comes from a communications activity that can be categorized).

The data show that the assets of the industry's magazine publishing sector—the combined results for business and magazine publishers—grew at essentially the same compound annual rate as did assets for the entire industry over the five years through 1985 (19.8 percent for magazines; 19.9 percent for the industry). But the magazine publishing sector's return on assets (ROA) has consistently bettered the industry's return each year—and by substantial amounts. The sector's operating income ROA, for example, averaged 29.8 percent compared with 16.1 percent for the industry. Generally, the sector's operating income ROA performed twice as well as the industry each year except in 1985, when it did half again as well.

The 10 industry segments, besides the two magazine publishing groupings, include newspaper publishing, broadcasting, cable and pay television, and business information services. Also included are book publishing, entertainment programming distribution, recorded music, and advertising.

In the magazine sector, data have been compiled for 15 business and 17 consumer magazine publishers. No publisher in one segment appears in the other, suggesting that the business operations of business and consumer magazine publishers are distinctly different.

Five-year sector results

For the five years ending with 1985, the operations of 29 of these 32 magazine publishers—all but two of them publicly held—grew more slowly

---

John S. Suhler is president of Veronis, Suhler & Associates, a New York investment banking firm specializing in mergers and acquisitions in the communications industry. Walter Hunnewell Jr., research director in the firm, is the editor of VS&A's annual Communications Industry Report. *Since its formation in 1981, VS&A has represented magazine publishers and other communications industry clients in completed investment banking transactions totaling more than $650 million.*

Magazine return on assets
1982-85

Classification	# of cos. in segment	Pretax operating income: Year-to-year growth (%) 1982	1983	1984	1985	Pretax operating income: 1982-85 average annual growth (%)	Operating cashflow: Year-to-year growth (%) 1982	1983	1984	1985	Operating cashflow: 1982-85 average annual growth (%)
Business magazine segment	14	23.4	27.0	34.2	26.2	27.7	25.9	29.8	37.5	30.4	30.9
Consumer magazine segment	15	30.6	31.0	40.3	22.6	31.1	35.6	36.6	46.6	29.8	37.2
VS&A magazine sector totals	29	28.0	29.5	38.1	23.6	29.8	32.1	34.1	43.3	29.9	34.9
VS&A communications industry totals	319	15.8	16.3	16.7	15.4	16.1	19.8	20.5	21.1	19.8	20.3

Business and consumer magazine return on assets, combined and separately, substantially outdistanced returns posted by the entire communications industry in each of the last four years. Except for 1985, operating income return on assets generally doubled the return for the industry—an outstanding achievement. For 1985, the return was half again as much as the industry's—still admirable. From an investment standpoint, ROA is considered one of the best gauges of the bottom line.

than the industry as a whole. The publishers managed a 7.9 percent compound annual growth in revenue, for example, compared with 13.7 percent for the industry. Their pretax operating income for the period grew 8.7 percent annually, only half the industry's 16.7 percent rate. Their profit margin in 1985 improved only 0.3 percentage points from its 1981 level, compared with a 1.5 percentage point improvement for the industry.

Nor did the magazine sector grow as rapidly as the overall industry in terms of cashflow. The publishers' five-year compound annual growth of pro forma cashflow was 11.6 percent versus 18.7 percent for the industry. Their cashflow margin in 1985 improved only 1.6 percentage points over its 1981 level, compared with a 3.0 percentage-point gain for the industry. (Cashflow is "pro forma" because it is obtained by adding depreciation and amortization to pretax operating income as a means to approximate actual cashflow.)

But the magazine sector's asset performance, as previously noted, was outstanding. Its showing on the measure of cashflow return on assets emphasizes the publishers' achievement. It consistently bettered the industry's performance each year, averaging 34.9 percent for the four years covered, compared with an average of 20.3 percent for the entire industry's ROA each year.

In addition, the sector has outperformed the industry in terms of assets required to generate revenue, as measured by its asset turnover rate. In 1985, for example, assets turned over annually at a rate more than twice the industry's rate (2.3 times versus 1.0 times).

These growth rate and financial ratio comparisons are based on segment composites. They have been compiled for only 29 of the 32 publishers in order to exclude cases where data are unavailable for all five years, or are inconsistently reported. This smaller figure improves the comparisons' validity.

> "Although business publishers outperformed consumer publishers in terms of five-year compound annual growth of operating income, consumer publishers pulled ahead on the basis of 1985 annual income growth."

For the magazine sector, the averages are based on data for 14 of the 15 business publishers and 15 of the 17 consumer publishers. For the entire industry, the composite comparisons are—for similar reasons—based on data for 319 business lines reported by 244 companies.

Business publishers' performance

Business magazine publishers, although experiencing only 6.5 percent compound annual revenue growth, achieved a decent 9.3 percent compound annual income growth during the 1981-85 period. Their 1985 operating income margins stood at a respectable 12.3 percent—an improvement of 1.2 percentage points from 11.1 percent in 1981.

However, revenue growth in 1985 dropped to 6.6 percent from the prior year's 14.4 percent. Despite the slowdown, 1985's result still exceeded no growth (-0.1 percent) and 5.6 percent growth for 1981 and 1982. But the segment's 1985 operating income also declined by 9.1 percent from the record level set for the period in 1984. (It was the segment's only contradiction in income for the period.) The year 1985 also saw the segment's operating income margin slip to 12.3 percent from 1984's record 14.5 percent and from the 12.9 percent posted in 1983, as well.

Compared with industry results, business magazine publishers' operating income in 1985 and for the five-year period grew at rates noticeably below industry rates. Income growth, for example, has been less than the industry's for every year except 1984. Meanwhile, the segment's operating income margin, which in 1984 had all but

Magazine financial growth
1981-85

Classification	# of cos. in segment	Revenue: Year-to-year growth (%) 1982	1983	1984	1985	Revenue: 1981-85 compound annual growth (%)	Pretax operating income: Year-to-year growth (%) 1982	1983	1984	1985	Pretax operating income: 1981-85 compound annual growth (%)
Business magazine segment	14	-0.1	5.6	14.4	6.6	6.5	3.2	18.7	27.9	-9.1	9.3
Consumer magazine segment	15	5.5	10.1	9.4	8.7	8.4	4.7	1.6	41.0	-7.9	8.4
VS&A magazine sector totals	29	4.0	9.0	10.7	8.1	7.9	4.2	6.8	36.6	8.3	8.7
VS&A communications industry totals	319	13.1	13.6	16.7	11.7	13.7	11.5	21.6	21.5	12.7	16.7

Combined business and consumer magazine revenue, although posting a slowdown in annual growth last year, managed to keep growth above the 7.9% five-year compound annual rate. But just barely. Pretax profit growth declined sharply from 1984's record rate, as 1985 net operating income fell below 1984 levels. Magazine profits grew more slowly than did overall communications industry profits—both for the five years and 1985. Consumer magazines generally posted better revenue and profit growth for both periods.

closed a long-standing gap between the segment and the industry, reopened. The segment's 1985 margin was 12.3 percent—down from 14.5 percent. In contrast, the industry's margin in 1985 was 14.8 percent—up from 14.7 percent in 1984. The segment's margin in 1985 improved somewhat less from 1981 levels than did the industry's (1.2 versus 1.5 percentage points).

The publishers achieved a total cashflow growth of 50 percent over the five-year period. Cashflow expanded at an annually compounded rate of 10.7 percent. But growth reversed itself in 1985, as cashflow levels declined by 3.8 percent from a high set the prior year.

The segment's cashflow margin in 1985 stood at 14.3 percent—noticeably below the 19.0 percent industry margin and down from the segment's record 15.9 percent level in 1984. The segment's margin showed a 2.0 percentage point improvement between 1981 and 1985, but the industry's margin improved by a full percentage point more.

However, business magazine publishers performed in outstanding fashion on that all-important measure: return on assets. Their asset base grew at a compound annual rate of only 9.9 percent during the five years—half the industry's 19.9 percent rate. But their average annual pretax operating income return on assets was 26.2 percent compared with the industry's 15.4 percent. In 1985, the segment's cashflow return on assets stood at a lofty 30.4 percent, compared with the industry's 19.8 percent return.

> "However, the magazine sector did not grow as rapidly as the overall communications industry in terms of cashflow."

Sizing up both segments

Consumer magazines generally outperformed business magazines on measures of operating growth for 1985 and for the five-year period. The consumer publishers' five-year revenue grew at a 30 percent greater rate (8.4 percent versus 6.5 percent). For 1985 over 1984, the spread in growth rates was about the same—32 percent—as consumer publishers' revenue grew 8.7 percent versus 6.6 percent for business publishers.

Although business publishers outperformed consumer publishers in terms of five-year compound annual growth of operating income (9.3 percent versus 8.4 percent), consumer publishers pulled ahead on the basis of 1985 annual income growth. Their income contracted at a lesser rate (-7.9 percent versus -9.1 percent).

Consumer magazine publishers also led in cashflow growth, registering a 12.0 percent compound annual rate for the five years, compared with 10.7 percent for business magazine publishers. In 1985, consumer magazine publishing recorded 4.9 percent growth in cashflow (largely the result of increased CBS cashflow after the purchase of Ziff-Davis titles), while business magazine publishing cashflow declined 3.8 percent.

Business magazine publishing topped consumer magazine publishing, however, in terms of income and cashflow margin levels for 1985. The business publishers' income and cashflow margin levels in 1985 showed greater improvement from 1981's level. Their operating margin, for example, was 12.3 percent, compared with 9.4 percent for consumer magazines.

Business magazine publishing's return on assets was also higher. The difference is particularly noticeable on the operating income measure—3.6 percentage points.

Consumer publishers' performance

Consumer magazine publishers experienced 8.4 percent compound annual growth in operating income during the five-year period on the same amount of revenue growth. Consequently, their 1985 profit margin stood at its same (1981) level: 9.4 percent.

The publishers' 1985 operating results were down, reflecting advertising-page softness. Income actually declined 7.9 percent after a spectacu-

Magazine financial performance
1981-85

Classification	# of companies in segment	1985 asset turnover (times/yr.)	1985 operating income: 85 vs. 81 margin change (points)	1985 operating income: 1985 margin	1985 cashflow operating income: 85 vs. 81 margin change (points)	1985 cashflow operating income: 1985 margin
Business magazine segment	14	2.1	1.2	12.3%	2.0	14.3%
Consumer magazine segment	15	2.4	0.0	9.4%	1.5	12.3%
VS&A magazine sector totals	29	2.3	0.3	10.1%	1.6	12.9%
VS&A communications industry totals	319	1.0	1.5	14.8%	3.0	19.0%

***Magazines in 1984 made the most efficient use of their assets** of any of the 10 segments of the communications industry, based on return on assets and asset turnover measures. Their profit margins also improved for 1984 over 1980 more than the industry's margin did. Besides magazines, industry segments include broadcasting, cable and pay TV, business information services, newspaper publishing, book publishing, entertainment programming and distribution, recorded music, and advertising.*

Growth of leading consumer magazine publishers

	Rank	Revenue (%)	Pretax operating income (%)		Pro forma operating cashflow	
1985 growth (%)	1 ACS Enterprises	300.0	Washington Post (Newsweek)	32.3	Historical Times	262.5
	2 Regal Communications	120.0	New York Times	21.4	CBS	28.6
	3 Baker Communications	66.7	Gambling Times	0.0	Washington Post (Newsweek)	28.5
5-year compound annual growth rate (%)	1 Advantage Companies	27.2	Washington Post (Newsweek)	20.3	Historical Times	34.0
	2 Historical Times	22.9	Time	14.6	Washington Post (Newsweek)	20.2
	3 Gambling Times	16.2	New York Times	7.7	Time	16.4

Performance leaders

	Rank	1985 return on assets (%)	1985 margins (%)		81 vs. 85 margin change (points)	
Pretax operating income	1 Webb Co.	42.9	Time	11.9	Washington Post (Newsweek)	4.2
	2 Time	36.3	Meredith	10.4	Webb Co.	1.1
	3 Washington Post (Newsweek)	33.7	Webb Co.	9.5	Time	0.2

***Recent conventional wisdom to the contrary**, the growth and performance race is not always won by small companies—at least not in consumer magazine publishing. The Washington Post Co., fourth largest in the consumer magazine segment on the basis of 1985 revenue, appeared six times among the top-three consumer publishers when measured by nine financial measures. Close behind came giant Time Inc., with five appearances. Time only ranked first once, however. Its arch rival occupied the No. 1 spot three times—again, more than any other company.*

lar 41 percent increase in 1984 that doubled the communications industry rate that year, while 1985 revenue growth slowed to 8.7 percent from 9.4 percent the prior year. The publishers' operating income margin in 1985 eroded by 1.6 percentage points from 1984 (9.4 percent versus 11.0 percent).

Cashflow grew in 1985, but only by 4.9 percent—well under the five-year compound annual rate of 12.0 percent. The slowdown in growth came as the segment's cashflow margin fell by half a percentage point—to 12.3 percent.

This segment's ROA performance, however, was excellent. Its operating income return on assets for 1985, for example, was 22.6 percent. An investor might, in other words, expect to receive 23 cents for every $1 of book asset value in the business. Cashflow return on assets was 29.8 percent—some 51 percent higher than the industry average. In addition, the segment's 1985 assets turned over 2.4 times annually—about one and one-half times more rapidly than the industry's 1.0 rate.

Leading business publishers

Who's hot; who's not? Rankings of the leading companies in each magazine segment have been assembled for these measures, for both the five-year period and the 1985 period.

Among business magazine publishers, Dalton Communications, publisher of *Penny Stock Journal*, achieved 160.4 percent compound annual revenue growth, far outdistancing the rest. In second and third place were Plaza Communications, whose titles include *Registered Representative* and *Personal Investor*, with 44.3 percent, and United Newspapers, owner of Gralla, with 15.3 percent. Those rates compare with the VS&A Business Magazine Publishing segment composite of 6.5 percent and the VS&A Communications Industry composite of 13.7 percent.

In terms of five-year compound annual income growth, the leaders were American Broadcasting Companies (Hitchcock/Miller, etc.), with 68.5 percent, followed by Harcourt Brace Jovanovich (HBJ), with 27.3 percent, and Bill Communications, a privately held firm, with 13.5 percent. VS&A segment and Communications Industry composites were 9.3 percent and 16.7 percent, respectively.

Measured by 1985 revenue growth, American City Business Journals stood head and shoulders above the rest, with growth of 105.1 percent. Second was Plaza Communications, with 50.0 percent. Harcourt Brace Jovanovich was a distant third, with 15.1 percent. The VS&A segment composite was only 6.6 percent; the VS&A Communications Industry composite, 11.7 percent.

Based on 1985 operating income margins, the leaders were American City Business Journals, HBJ and McGraw-Hill, Inc., with 18.8 percent, 15.9 percent and 15.3 percent, respectively. All three bettered VS&A composites for the segment of 12.3 percent and for the industry of 14.8 percent.

OTC Stock Journal, which publishes the magazine of the same name, posted the best 1985 operating income return on assets (50.0 percent), followed by Pittway Corp. (Penton/IPC), with 45.7 percent, and then by HBJ (41.8 percent). Each easily exceeded the respective VS&A segment and industry composites of 26.2 percent and 15.4 percent.

"Who's hot; who's not? Which magazine publishers have been delivering standout performances on the test that, from an investment perspective, matters most—ROA?"

Leading consumer publishers

Among consumer magazine publishers, Advantage Companies Inc., a small Nashville publisher of several local interest magazines, ranked first in five-year compound annual revenue growth, with 27.2 percent. Close behind in second place was Historical Times, publisher of *Country Journal*, with 22.9 percent. Gambling Times, publisher of the same-named label, parlayed its way into third place, with 16.2 percent. Rates of all three topped the VS&A Consumer Magazine Publishing segment composite of 8.4 percent, and noticeably bettered the VS&A Communications Industry composite of 13.7 percent.

Looking at five-year compound annual income growth, the leaders were Washington Post Company (*Newsweek*), with a fast-paced 20.3 percent. Time Inc. filled the number-two spot, with 14.6 percent. The New York Times Company placed third, with 7.7 percent. VS&A segment and Communications Industry composites registered 8.4 percent and 16.7 percent, respectively.

When it came to 1985 revenue growth, ACS Enterprises, recent purchaser of *Home Viewer* and distributor of guides to video programming/home entertainment, swept into first place, with 300 percent growth. Regal Communications, publisher of *Lottery Players Magazine*, tallied a 120 percent growth rate to take second place. And Baker Communications, publisher of two regionally targeted lifestyle magazines—*Beverly Hills* and *Newport Beach*—ranked third, with 66.7 percent. All three surpassed the VS&A segment composite of 8.7 percent, as well as the VS&A Communications Industry composite of 11.7 percent.

Concerning 1985 operating income growth, the leader was once more The Washington Post Co. (32.3 percent), followed this time by The New York Times (21.4 percent). Gambling Times held the number-three position, with no growth (0.0 percent). By comparison, the segment posted a contraction in operating income (-7.9 percent), while the industry's income increased 12.7 percent.

As for 1984 operating income margins, the leaders proved to be three of the larger companies: Time Inc. (11.9 percent), Meredith Corp. (10.4 percent) and the Webb Company (9.5 percent). Their profit margins compared with VS&A composites and industry composites of 9.4 percent and 14.8 percent, respectively.

The Webb Company, classified in this segment on the strength of its consumer titles and contract publishing operations, although it also is a significant business publisher, achieved the best 1985 operating income return on assets, with an admirable 42.9 percent. (Webb recently agreed to be acquired by Robert Maxwell's British Printing & Communications Corporation, PLC). Time Inc. moved into second place, with an impressive 36.3 percent, and

Growth of leading business magazine publishers

	Rank	Revenue (%)	Pretax operating income (%)		Pro forma operating cashflow (%)	
1985 growth (%)	1 American City Business Jrnls.	105.1	American City Business Jrnls.	275.0	American City Business Jrnls.	240.0
	2 Plaza Communications	50.0	Dalton Communications	33.3	Dalton Communications	66.7
	3 Harcourt Brace Jovanovich	15.1	Harcourt Brace Jovanovich	11.2	Harcourt Brace Jovanovich	12.1
5-year compound annual growth rate (%)	1 Dalton Communications	160.4	ABC	68.5	ABC	51.4
	2 Plaza Communications	44.3	Harcourt Brace Jovanovich	27.3	Harcourt Brace Jovanovich	25.4
	3 United Newspapers (Gralla)	15.3	Bill Communications	13.5	Bill Communications	14.2

Performance leaders

	Rank	1985 return on assets (%)	1985 margins (%)		81 vs. 85 margin change (points)	
Pretax operating income	1 OTC Stock Journal	50.0	American City Business Jrnls.	18.8	ABC	9.4
	2 Pittway (Penton/IPC)	45.7	Harcourt Brace Jovanovich	15.9	Harcourt Brace Jovanovich	6.4
	3 Harcourt Brace Jovanovich	41.8	McGraw-Hill	15.3	Pittway (Penton/IPC)	0.2

American City Business Journals turned in the best growth among business magazine publishers last year in terms of revenue (105.1%), pretax operating income (275.0%) and operating cashflow (240.0%). It also ranked first in terms of operating income margins (18.8%). Only Harcourt Brace Jovanovich (HBJ) appeared among the top-three leaders more often on the basis of nine measures. HBJ made the cut eight times—but it never took top billing.

The Washington Post Co. followed close behind in third place with an excellent 33.7 percent. All three outperformed the VS&A segment composite of 26.2 percent, more than doubling the VS&A industry composite of 15.4 percent. The same three companies led, in the same order, on the measure of 1985 cashflow return on assets, with returns of 49.0 percent, 39.5 percent, and 39.2 percent.

The charts accompanying this article contain additional rankings of the leading publishers.

Segment rankings

How do the results for business and consumer magazine publishing compare with results for the other eight identified segments of the communications industry? These rankings are of particular interest to companies considering diversification.

Business and consumer magazine publishers ranked eighth and ninth, respectively, on the basis of five-year compound annual revenue growth. They also ranked in the bottom half of the 10-segment industry in terms of five-year compound annual operating income and cashflow growth. In addition, the two magazine segments appeared in the bottom half when it came to 1985 annual growth of revenue, operating income and operating cashflow.

In terms of improved 1985 margins—operating income and cashflow—over 1981 levels, the publishers again fell into the bottom half of the industry. For 1985, however, business magazine publisher profit and cashflow margins placed in the top half of the industry. But those same margins for consumer magazine publishers continued to be placed in the bottom half.

The two magazine segments shine when their returns on assets are considered for 1985—both operating income and cashflow. Business magazines ranked number two in the industry on both measures; consumer magazines, number three. That performance is sufficient to raise anticipation for better comparative growth rates on operating indicators for the sector and each magazine's segment for 1986.□

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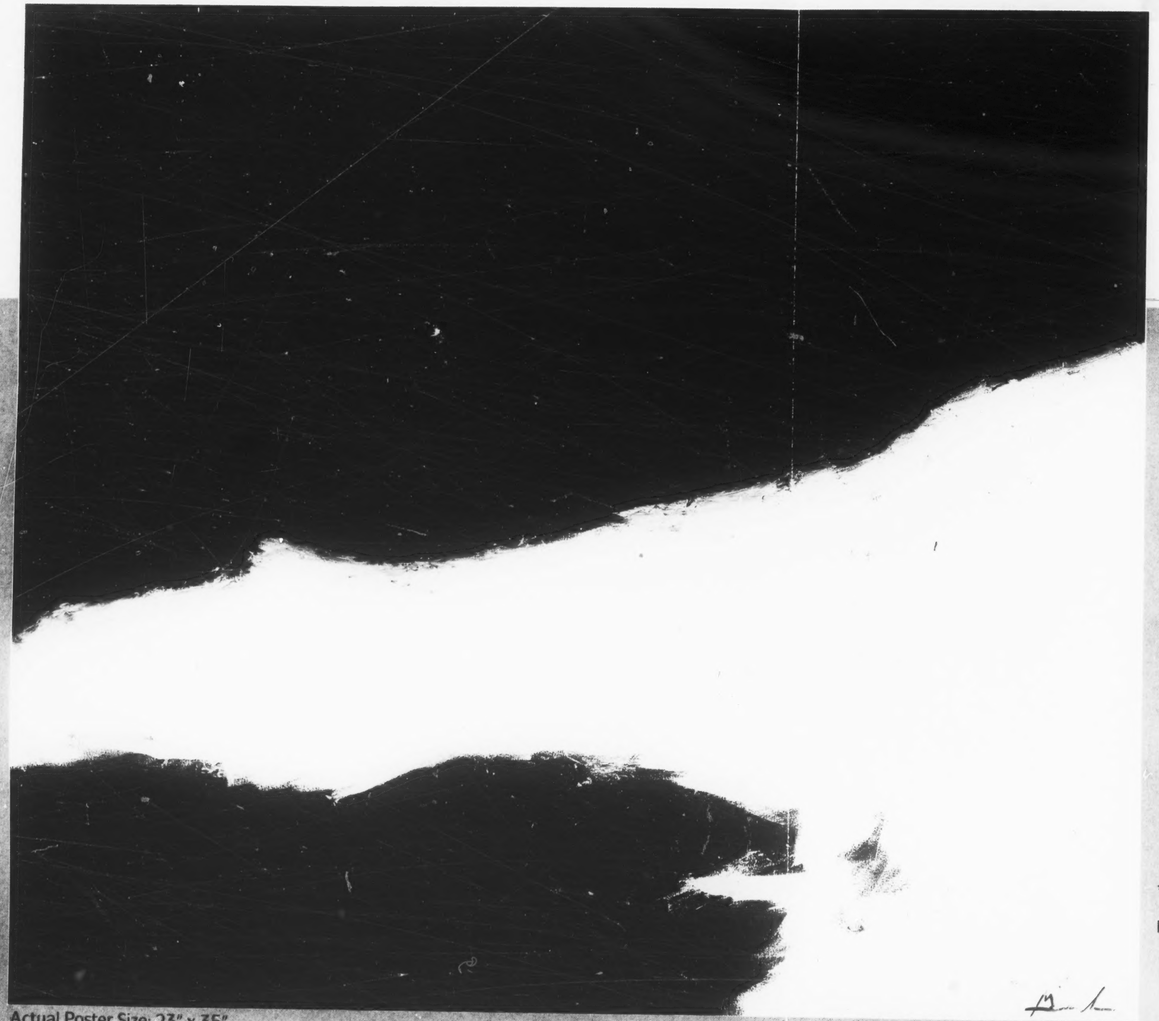

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